1995 annual report

success stories... every day

Blue Cross
Blue Shield
of Florida

An Independent Licensee of the Blue Cross and Blue Shield Association

1995

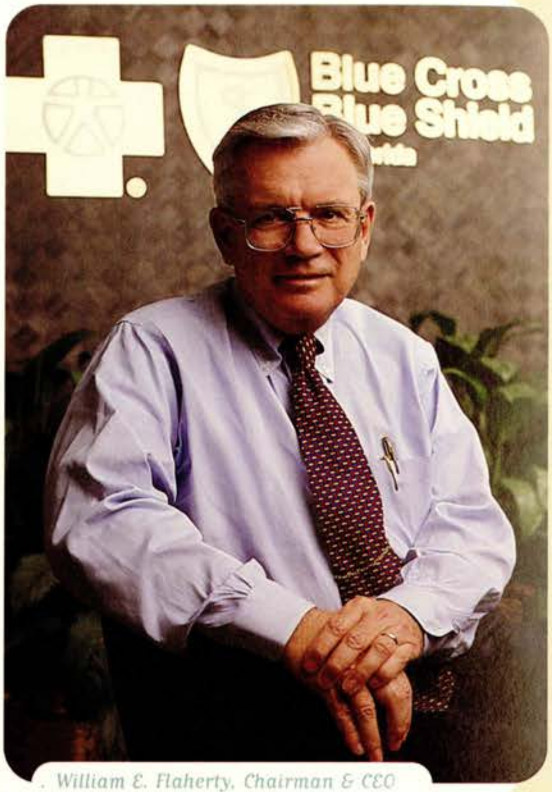
Blue Cross and Blue Shield of Florida is proud to share success stories like Victoria, Matthew and Lauryn Hamil — triplets born with the assistance of Healthy Addition, our statewide prenatal program. This program provides high-risk moms with prenatal education and emotional support during their pregnancies. And for Susan Hamil, the result was a healthier, less stressful pregnancy and three beautiful healthy children born full-term. Now 29 months old, the triplets have continued to take advantage of the preventive care benefits we offer including immunization against childhood diseases.

message from the chairman & CEO 1995

Last year, Blue Cross and Blue Shield of Florida (BCBSF) continued to meet the dynamic health care needs of more than 2 million Floridians. Our 1995 enrollment gains and financial performance attest to our success in providing access to high quality health care at affordable cost.

BCBSF added more than 118,000 new customers in 1995. The company's largest growth was in our health maintenance organization (HMO), Health Options, which grew by 28 percent. This enrollment growth makes Health Options one of the fastest growing HMOs in the country, according to Faulkner & Gray, a nationally recognized source of health care industry information.

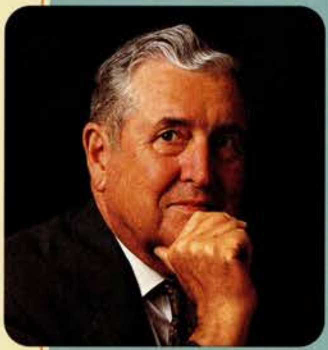
In addition to rapid growth, Health Options also demonstrated its commitment to quality by earning full accreditation from the National Committee for Quality Assurance (NCQA). Full accreditation means that Health Options ranks among the top 15 percent of all HMOs in the country when measured against NCQA's important standards for quality management and improvement, physician credentialing, preventive health services and medical records management.



William E. Flaherty, Chairman & CEO

We also are pleased to report solid financial results and significant increases to policyholders' equity. BCBSF's consolidated revenue of $2.5 billion was a 12 percent increase over 1994. And, policyholders' equity grew 23 percent for a total of $688.4 million.

As the company continues to grow, policyholders' equity will provide the resources necessary to meet the needs of an expanding customer base. This equity is an important measure of BCBSF's financial strength. It helps ensure the company can meet its



*After 17 years of service on BCBSF's Board of Directors, the last 13 years as chairman, **G. Hunter Gibbons** retired in September 1995. Over the years, his inspired leadership has been instrumental in the company's success, and we will miss his unwavering dedication. Most of all, we wish him happiness and give him our deep and lasting gratitude.*

obligations during times of economic uncertainty or when claims expenses are higher than anticipated. BCBSF also uses policyholders' equity to develop new programs that continuously enhance health care quality while controlling costs.

BCBSF is a mutual insurance company and is subject to the same regulation by the Department of Insurance as other insurers operating in Florida. In 1995, the company paid $47 million in state and federal taxes.

Today more than 71 percent of all working Americans with private health insurance receive some form of network-based health care. Consistent with this national trend, the majority of our customers are enrolled in one of our HMO or PPO (preferred provider organization) plans.

Through these plans, we give our customers access to comprehensive care that fits within their budgets. And just as important, patients can play a greater role in making decisions about their health care by working directly with their personal physicians.

The advantages our customers benefit from include: *Healthy Addition*, a program that provides prenatal education and early intervention for high-risk pregnancies; *Asthma Care Plus*, a program to improve the quality of life for asthmatics; preventive health care benefits that encourage and cover immunizations for children and health screenings for adults; coordinated care between your personal physician and specialists; and a broad range of affordable options for seniors.

As Florida's health care industry leader, we continued working with our customers, physicians, other industry partners and government to make sure our

continued on page 4

Michael Cascone, Jr., President & COO

***Michael Cascone, Jr.** was appointed president and chief operating officer in January 1996. He joined BCBSF in 1968, most recently serving as executive vice president. During his tenure with the company, he has held a number of senior executive positions in health care services, private and government business operations, finance, legal, public affairs, information systems, and marketing.*

With nearly three decades of experience at BCBSF, Cascone is well-positioned to oversee the day-to-day operations of the company. He looks forward to continuing his close association with William E. Flaherty, who was elected chairman of the board in September 1995 and continues as chief executive officer.

Under their combined leadership, the company will continue to hold true to the time-honored values and philosophy of care that have prevailed at BCBSF from the day our first customer was served.

health care system evolves in a positive way. We kept customers and other consumers informed and worked with them to share information with lawmakers in Tallahassee and Washington, D.C. Together, we helped prevent passage of legislation that would diminish the quality or raise the cost of health care. We also helped pass legislation to assure continued health care insurance for people employed by small companies who leave their jobs.

Pictured with Flaherty and Cascone is Joan Killebrew, executive secretary to the president.

Consumers want choice, and our customers' needs are diverse. Our goal is to continue providing an array of health care options — including HMOs, PPOs and traditional fee-for-service plans — to meet consumers' needs. To do this, the government must maintain an environment that encourages competition and innovation in the private marketplace. This will allow the health care industry to continue making progress in providing more consumers with access to quality health care at affordable cost.

"Consumers want choice, and our customers' needs are diverse. Our goal is to continue providing an array of health care options to meet consumers' needs."
William E. Flaherty, Chairman & CEO

As the number of companies providing health coverage increases, customers want the company that offers them the most value for their money. BCBSF continues to grow because we do offer customers value and quality for their health care dollars.

We take our commitment to provide Floridians with value, quality and service very seriously. And that commitment begins with BCBSF employees reaching out to communities and neighborhoods across the state. Last year our employees donated 24,079 lbs. of food to the Second Harvest Food Bank of Florida, walked more than 3,000 miles to raise $18,567 for the March of Dimes, and gave more than $570,000 to United Way programs.

Operationally, we are continuing to improve our efficiency by streamlining many of the processes that help us meet the needs of our customers. We also are creating new capabilities that will give us the ability to enhance our service and value.

"We are committed to providing our customers with high-quality health care at reasonable cost with excellent service every day."
Michael Cascone, Jr., President & COO

For example, we are creating a "virtual office" capability that will electronically link us with the doctors in our networks. And, work is underway to develop a proactive, comprehensive system for helping patients who are ill including early disease detection, patient education, family support and innovative treatment.

As part of our ongoing strategic planning, construction is underway on a corporate campus in Jacksonville. The new campus supports our corporate objectives for organizational and financial effectiveness by bringing together employees now housed throughout 15 different buildings in Jacksonville.

We also have had some changes in the leadership of our company. The significant contributions of our past chairman of the board, G. Hunter Gibbons, will long endure as we move forward to meet the challenges of the future. A future that will be enhanced by the capable leadership of Michael Cascone, Jr. in his new role as president and chief operating officer. As the new chairman and continuing chief executive officer, I will concentrate on strategy, organization effectiveness and corporate development; Mike will concentrate on the operations of the company.

At BCBSF, we believe that corporate success begins on a personal level with a satisfied customer. So we measure our results in more than just dollars or number of customers. Our bottom line is a commitment to provide customers with high-quality health care at reasonable cost with excellent service. And these results are measured *every day* through

success stories such as those included in this annual report.

William E. Flaherty

William E. Flaherty, Chairman & CEO

When you own a printing company, says Mary Vowell, you learn to keep one eye on the press and the other on the cost of paper. "Paper prices are sort of like the stock market — up and down."

The volatility of paper makes the owner of Vowells Printing in Pensacola all the more appreciative of what has happened to another cost of doing business — employee health care. BCBSF's HMO — Health Options — provides her employees with quality coverage that is affordable and stable, she says.

"It hasn't gone up much in about six years," she says. "In fact, it's gone down in a few areas. For example, a husband and wife with no children can now get coverage for just the two of them instead of more costly family coverage."

Every day small businesses are finding that HMO and PPO coverage from BCBSF better enables them to project costs and remain competitive. Mary, who moved to Pensacola with her family 15 years ago to open her printing firm, says affordability is not the only factor. "We look at the quality and extent of the coverage," she says. "We've had some serious health-related incidents in our company, and Health Options has been a blessing. The care has been marvelous."

At Vowells Printing, employees are not only important members of the team, they're part of the family.

One big fan of Health Options is an employee who does commercial copying for the company, says Mary. This woman suffered a serious foot infection and almost lost her entire foot during a long hospitalization. In a small business, each employee is not only an important member of the team, they're part of the family. "The care she received impressed us all," says Mary. "The doctors were wonderful and managed to save most of her foot, which allows her to keep working at the same job."

For the last decade, BCBSF's Health Options has been the choice of most of the printing company's dozen employees. One of the attractions of Health Options is the absence of claim forms. "I like that myself," Mary says. Another important feature is the preventive health benefits it provides, something Mary encourages every employee to use.

For Mary Vowell, good health care must blend quality and affordability as expertly as ink and paper on a well-run press. At Vowells Printing and hundreds of other businesses, BCBSF's Health Options is providing the right solution for their health care needs.

Providing her employees with quality coverage that is affordable and stable is important to Mary Vowell (in circle & above left), owner of Vowells Printing in Pensacola. For the last decade, BCBSF's Health Options has been the choice of most of the printing company's dozen employees. Mary says the care she and her employees, like Pat McDaniel (above right), have received through Health Options has been "marvelous."

When Maria Silveria of Ormond Beach learned she was pregnant, she was both pleased *and* anxious. Her first pregnancy required 15 weeks of bed rest, three of them in the hospital. And while her son Daniel — born 10 weeks premature with a digestive problem — is a healthy five-year-old today, she wondered if her new baby would face a similar ordeal.

"Pregnancy gives you a lot to think about, and that's especially true if you are in bed worrying about your child and thinking you're not going to be able to carry it to term," recalls Maria.

This time around was different. As a member of BCBSF's Health Options, Maria was assisted by Healthy Addition, a voluntary prenatal education and intervention program. With the help of this program, Maria's second son, Gabriel, was only two weeks premature.

Healthy Addition nurse case manager Rebecca Valdes worked with Maria to ensure she received the necessary care and support. "Having a nurse assigned to me helped a lot," says the beaming mother. "She listened to me, answered my questions and told me things would turn out all right if I followed my doctor's advice."

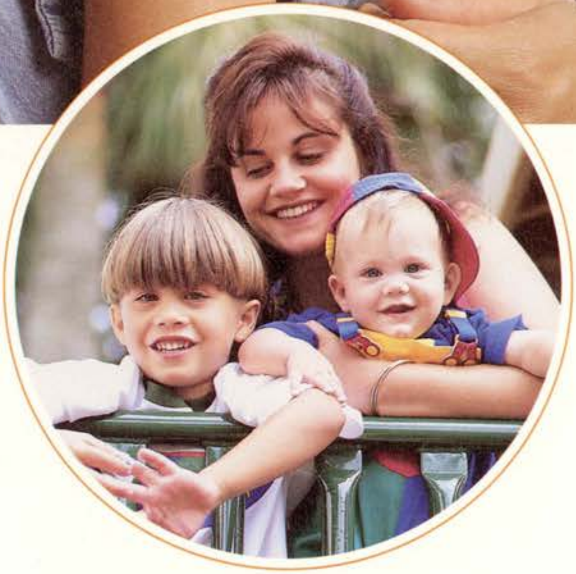
Healthy Addition nurse case manager Rebecca Valdes worked with Maria and her family to provide the care and support Maria needed.

Healthy Addition nurses contacted more than 6,300 pregnant women in 1995 to help them prepare for a healthy, full-term pregnancy. Of those expectant mothers, 1,100 were identified as possible high-risk pregnancies who needed extraordinary care.

Women with high-risk pregnancies can lose a sense of control over their lives, particularly if hospital stays are imminent. If the doctor agrees, Healthy Addition helps make it possible for them to stay in their familiar home environment. "Being in my own bed, at home with my family to support me, made a big difference," says Maria.

When Maria's contractions began 13 weeks early, Rebecca worked with Maria's doctor to make sure Maria got the care and medications she needed to allow her to stay at home and postpone delivery. For the next 11 weeks, Rebecca encouraged Maria to follow her doctor's advice about diet and limiting activity. "She was always there when I needed her," says Maria. "I ended up having a wonderful, healthy child."

Baby Gabriel, who made his debut on October 13, 1995, is not only a special addition to the Silveria family, but one more "healthy addition" to the Blue Cross and Blue Shield of Florida family.



Maria Silveria of Ormond Beach, pictured above with her second child, Gabriel, says pregnancy gives you a lot to think about, especially when you're classified as high-risk. Her first son was born 10 weeks premature. With the help of Healthy Addition — BCBSF's prenatal program — baby Gabriel was only two weeks early. Maria, baby Gabriel and older brother Daniel take time out to enjoy each other and the beautiful Florida sunshine (in circle).

They are two of Jacksonville's most enthusiastic readers. Clara Brown looks forward to enjoying her local newspaper each morning. When he is not seeing patients, Dr. Jeff Levenson, a Jacksonville ophthalmologist, immerses himself in medical papers, particularly those dealing with diabetes and blindness.

Those reading habits helped bring the pair together two years ago. It was a meeting that ultimately saved Clara from diabetes-related blindness.

"I like to read the Metro section of the paper to find out what's going on," said Clara, a retired custodian for the Duval County School Board covered by BCBSF's HMO, Health Options. "When I started having trouble reading the paper, I immediately went to my personal physician, who referred me to Dr. Levenson."

For Dr. Levenson, it was a classic case of preventive health care preventing blindness. "People with diabetes often develop abnormal, fragile blood vessels in the retina," he explains. "They don't seem to affect vision, and then one day you cough or sneeze or bend over to pick up something. Suddenly, the eye is full of blood. You go from excellent vision to no vision in two minutes."

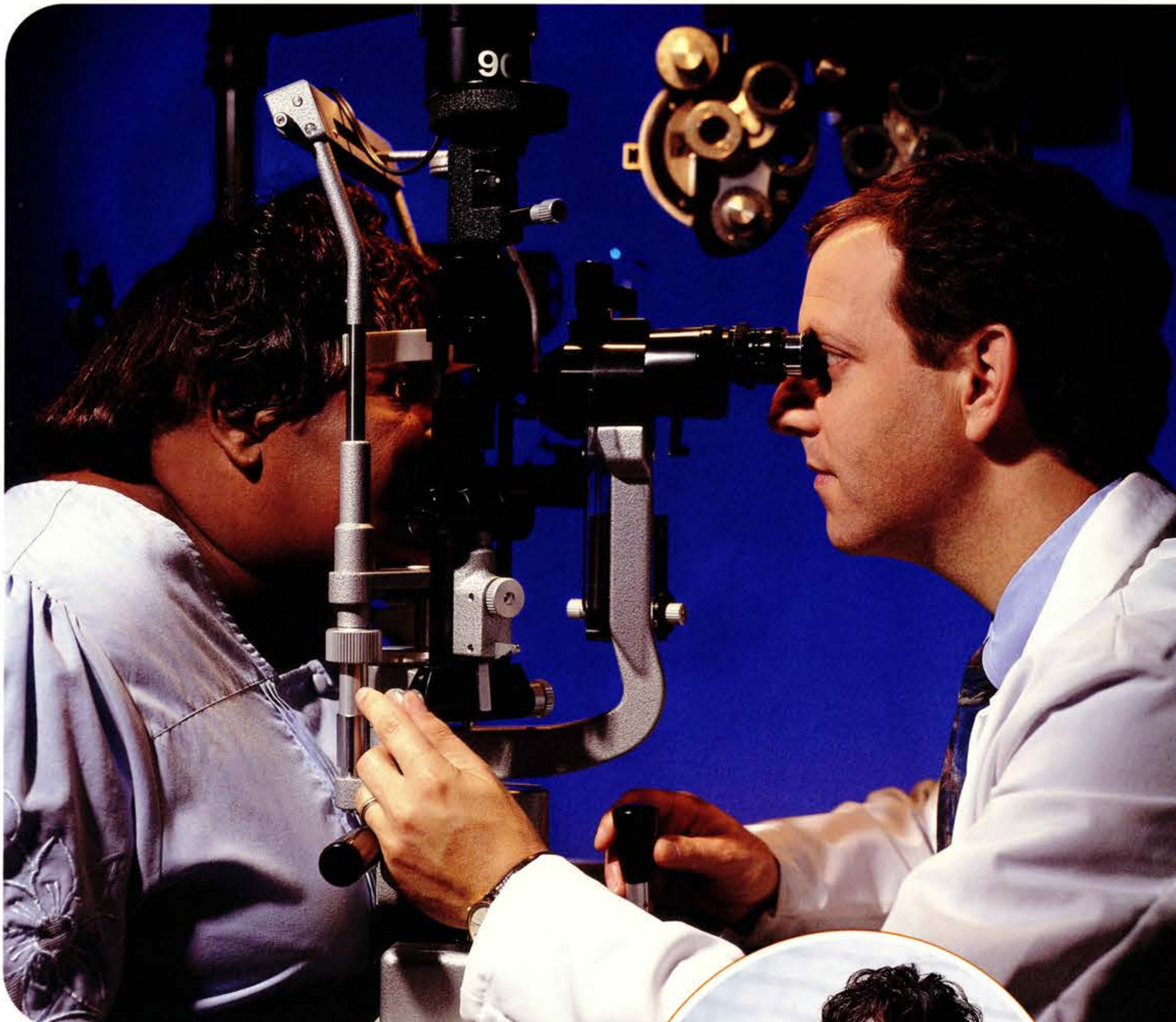
During his eight years of practice, Dr. Levenson has been committed to explaining the damage diabetes can do and the need for patients to return for regular checkups.

Clara had developed a clear indication of blood vessel damage (diabetic retinopathy). Dr. Levenson knew that without treatment, she faced a 35 percent chance of blindness within two years. Laser surgery repaired the damage and, no longer at risk for severe vision loss, Clara says she is "back to reading the paper."

Dr. Levenson is a strong supporter of network health plans — like Health Options — that encourage diabetics to undergo eye checkups. About half of the nation's 16 million diabetics don't know they have the disease. "And even those who know have a poor record of receiving eye exams — exams that could prevent 9,000 cases of blindness and save $16 million each and every year," he says.

During his eight years in practice, Dr. Levenson has remained committed to explaining the damage diabetes can do and the need for patients to return for regular checkups. He hopes to save even more eyes and keeps current on the latest studies.

And in the meantime, success story Clara Brown makes it a point to catch him up on any local news he might have missed when she visits his office.



Jacksonville ophthalmologist Dr. Jeff Levenson (above right) strongly encourages diabetics like Clara Brown (in circle & above left) to have regular eye exams — exams that could prevent 9,000 cases of blindness every year. Clara, who had developed a clear indication of diabetic retinopathy, is no longer at risk for severe vision loss and is back to reading the local newspaper.

Twice in the past four years Boynton Beach resident Ralph Monaco went to his family doctor for his routine physical. The retired general contractor from Connecticut — a member of *Medicare & More*, BCBSF's HMO for seniors — felt just fine.

Both times Dr. Manuel Bornia, his personal care physician, discovered something that could have led to serious trouble down the road. In 1992, the pulse through Ralph's right carotid artery felt and sounded weak. Tests confirmed the artery was more than 75 percent blocked. "He had a very high risk of suffering a stroke during the next year," Dr. Bornia explains. He referred Ralph to a vascular surgeon, who removed the blockage.

The scenario repeated itself two years later when Dr. Bornia discovered a 95 percent blockage in Ralph's left carotid artery. Thanks to the preventive checkups that *Medicare & More* covers — but traditional Medicare does not — Ralph was again saved from the likelihood of a stroke.

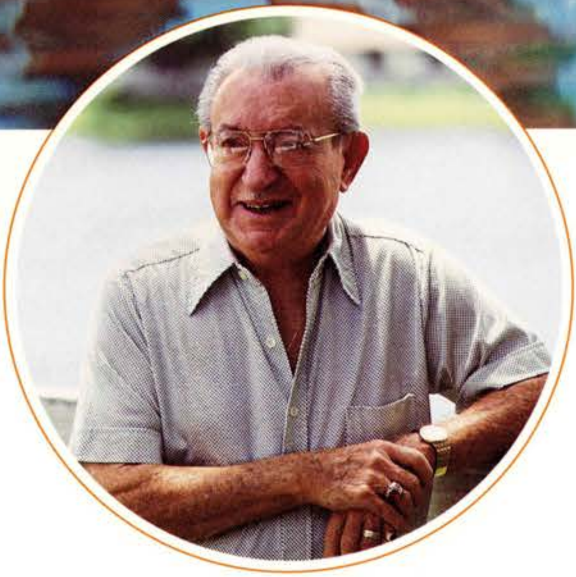
"Dr. Bornia has coordinated my care with some excellent specialists and done a darn good job of keeping me alive," says Ralph, who's now 84 and doing well. Dr. Bornia also coordinated Ralph's care through two back surgeries.

Ralph and Sylvia Monaco say Dr. Bornia has been a shining example of the medical care and human concern they find throughout the Medicare & More health network.

Through it all, Ralph and his wife Sylvia, 80, say Dr. Bornia has been a shining example of the medical care and human concern they find throughout the *Medicare & More* health network. "It's a personal thing with Dr. Bornia. It's not just a cut-and-dried situation where the doctor does what he can and then lets it go at that," says Ralph. "Dr. Bornia never loses contact with me or my specialists. I have no qualms whatsoever that I'm in good hands."

The Monacos still talk about the time Dr. Bornia used the police to track down a friend of theirs who was visiting his grandchildren in Rhode Island. Results of a blood test had indicated the man's blood was so thin "any little trauma could have been serious, maybe even fatal," says Dr. Bornia.

"We've referred a lot of our friends to *Medicare & More* and Dr. Bornia," says Sylvia. "He's the kind of doctor you can talk to, he remembers you from one visit to the next. You can be sure he's on top of everything."



Thanks to preventive checkups covered by Medicare & More — BCBSF's HMO for seniors — Boynton Beach resident Ralph Monaco (in circle & above left) was twice saved from the likelihood of a stroke. Ralph and his wife Sylvia (above right) have referred lots of their friends to Medicare & More and Dr. Manuel Bornia, their personal physician who coordinates all their health care needs.

For most teachers, chalk dust is nothing more serious than an occasional white smudge on a dark suit. But for fifth grade teacher Violet Stovall, dust and other airborne pollutants can trigger an asthma attack.

"There have been times my asthma was so bad I had to leave the classroom," says the Duval County Sabal Palms school teacher.

That was before she joined the *Asthma Care Plus* program offered through Health Options — BCBSF's HMO health plan. *Asthma Care Plus* is a free, voluntary program designed to improve quality of life. And, since last fall, Mrs. Stovall's pupils haven't had to watch their teacher struggle to breathe.

Her own children — Krystle, 10, and Marcus, 3 — have been spared the emotional toll of monthly asthma attacks that sent their mother rushing to the doctor or emergency room. Since Mom joined the program, Krystle hasn't needed to dial the emergency phone numbers once.

Such success stories are common among the many *Asthma Care Plus* members. The program includes training sessions for members plus training for members' doctors and staff. Members work with their doctors to establish self-management plans. Key to the effort is a peak flow meter that measures airway flow and actually can forewarn users of upcoming attacks. When the meter signals potential problems, the member can follow their self-management plan to help head off an attack. The program also teaches members to evaluate their work and home environments to eliminate asthma triggers.

Violet and her family — husband Bobby, son Marcus and daughter Krystle — have been spared the emotional toll of monthly asthma attacks.

The payoff for Mrs. Stovall is clear. Once in the program, she learned the cause of two attacks that had sent her to the hospital. Both times, she had taken a pain reliever that contained aspirin and "within 40 minutes, I couldn't function." Only after she enrolled in *Asthma Care Plus* did Mrs. Stovall learn that asthmatics should never take aspirin.

"My understanding of the whole picture is much clearer now," says Mrs. Stovall. "Now I know how to keep my asthma under control. Keeping healthy and knowing what medications to take — or not take — helps a great deal."

Program participants say they now have better control of their asthma — on a scale of 1 to 5, the average improvement was 4.84. That means fewer attacks at work or in the middle of the night, the ability to participate in physical activities and greater peace of mind for the entire family. In short, a better quality of life.

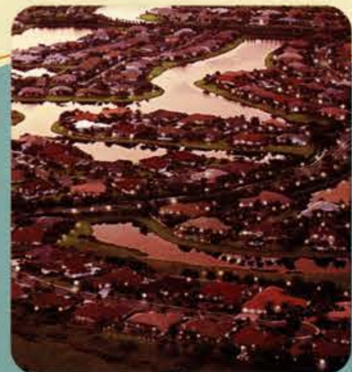
Duval County fifth grade teacher Violet Stovall (in circle & above center) says her asthma used to be so bad she had to leave the classroom. Since joining Asthma Care Plus — offered through BCBSF's Health Options — her Sabal Palms students, like Korey Milo (above left) and Darryl McRae (above right), haven't had to watch her struggle to breathe.

As director of compensation and benefits for Florida Power & Light Company (FPL), Jim Peterson could easily lose "people perspective" in the push to lower health care costs. Instead, he keeps one principle in mind: *At some point, every corporate expenditure translates into a human experience.*

That applies to FPL's dramatic success in controlling employee health care costs by working closely with BCBSF. Bucking national and statewide trends, FPL reduced their health care costs an average of $574 per employee in a three-year period.

"But our PPO plan did more than save dollars," says Jim. "The ripple effect of successfully controlling costs while providing quality health care touches a lot of people — our employees and their families, our customers and the community as a whole."

Within the FPL family there is Sam, a 13-year-old cystic fibrosis survivor, who is back in school and thriving after a double-lung transplant. Receiving home care through BCBSF's Extended Case Management program reduced the emotional toll on Sam and his family prior to surgery and avoided expensive hospital care. Sam, and other participants in this program for serious illnesses, received cost-effective care that was invaluable in terms of human comfort.



Controlling health care costs helped FPL avoid a rate increase for their 3.5 million customers — another positive result from the FPL/BCBSF partnership.

BCBSF also analyzed zip codes of FPL employees to identify areas that needed more providers. Then the FPL/BCBSF team visited hospitals and physicians to bring them into the PPO network. "Together," Jim explains, "we not only improved access for our employees but helped a lot of small employers in the area get access to the same quality network."

And then there are the 3.5 million FPL customers spread across 35 counties who also benefited from FPL's partnership with BCBSF. "That partnership," says Jim, "helped prevent a rate increase, something we've avoided for 11 years."

Such positive "ripples" are the result of a dynamic partnership between FPL and BCBSF's dedicated team of professionals — representing marketing, medical, underwriting, utilization and customer service.

How do FPL employees feel about their company's comprehensive PPO plan? "They think it's wonderful," says Jim. "We discovered employees had been aggravated in the past by balance billing — they were being surprised by bills. With the PPO, the claims submission is minimal, and employees find less hassle and fewer surprises."

Of the partnership, Jim says, "We had needs, and Blue Cross and Blue Shield listened to us." He's proud to report that, "Together, we proved that high-quality, affordable health care is possible."

Jim Peterson (in circle & above right), director of compensation and benefits for Florida Power & Light (FPL), says their partnership with BCBSF has proven that high-quality, affordable health care is possible. And, FPL employees like Chris Bryant (above left) find BCBSF's PPO health care plan gives them quality care with less hassle.

standing: Edward L. Boykin, Walter S. McLin III, Lewis A. Doman (*Vice Chairman*), Bernal Quiros, Henry H. Beckwith, Hugh M. Brown, Gonzalo F. Valdes-Fauli, W.D. (Bill) Frederick, Jr., Frank P. Scruggs, Jr., Yank D. Coble, Jr., M.D., and Alvin R. (Pete) Carpenter
seated: William E. Flaherty (*Chairman & CEO*), Robert M. Beall II, DuBose Ausley, Jan B. Luytjes, Ph.D., and Mary H. Cross

Edward L. Boykin
Certified Public Accountant
Tampa

Walter S. McLin III
Partner
McLin, Burnsed, Morrison, Johnson and Robuck, P.A.
Leesburg

Lewis A. Doman
Vice Chairman of the Board
Retired Chairman of the Board & Chief Executive Officer
The Citizens & Peoples National Bank
Gulf Breeze

Bernal Quiros
President & Chief Executive Officer
Logica, Inc.
Coral Gables

Henry H. Beckwith
Chief Executive Officer
First Coast Equipment Company, Inc.
Jacksonville

Hugh M. Brown
President & Chief Executive Officer
BAMSI, Inc.
Titusville

Gonzalo F. Valdes-Fauli
Regional Chief Executive Officer - Latin America
Barclays Group
Miami

W.D. (Bill) Frederick, Jr.
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The Frederick Investment Company
Orlando

Frank P. Scruggs, Jr.
Attorney at Law
Greenberg Traurig
Ft. Lauderdale

Yank D. Coble, Jr., M.D.
Endocrinologist
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Alvin R. (Pete) Carpenter
President & Chief Executive Officer
CSX Transportation, Inc.
Jacksonville

William E. Flaherty
Chairman of the Board & Chief Executive Officer
Blue Cross & Blue Shield of Florida

Robert M. Beall II
Chief Executive Officer
Beall's Department Stores, Inc.
Bradenton

DuBose Ausley
Chairman & Partner
Macfarlane, Ausley, Ferguson & McMullen
Tallahassee

Jan B. Luytjes, Ph.D.
Professor
Florida International University
Miami

Mary H. Cross
Community Leader
St. Petersburg

To the Board of Directors of
Blue Cross and Blue Shield of Florida, Inc.:

We have audited the accompanying consolidated balance sheets of Blue Cross and Blue Shield of Florida, Inc. and subsidiaries as of December 31, 1995 and 1994, and the related consolidated statements of operations and policyholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Blue Cross and Blue Shield of Florida, Inc. and subsidiaries as of December 31, 1995 and 1994, and the consolidated results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

On January 1, 1994, the Company adopted Financial Accounting Standards (FAS) Board Statement No. 112, "Employers' Accounting for Postemployment Benefits" and FAS 115, "Accounting for Certain Investments in Debt and Equity Securities," as discussed in Notes 1 and 8 to the consolidated financial statements.

Coopers & Lybrand LLP

Jacksonville, Florida
February 19, 1996

consolidated balance sheets

	December 31, 1995	1994
	(In Millions)	
assets		
Investments:		
Fixed maturities	**$ 703.0**	$ 609.8
Equity securities	**210.6**	162.4
Cash and cash equivalents	**48.2**	54.9
Total investments	**961.8**	827.1
Receivables:		
Premiums and other	**123.9**	89.7
Reimbursable contracts	**61.7**	57.6
Federal Employees Program	**88.1**	118.2
Property and equipment, net	**110.6**	80.9
Deferred expenses and other assets	**60.3**	68.9
Total assets	**$ 1,406.4**	$ 1,242.4
liabilities		
Liabilities for policyholder benefits:		
Claims outstanding	**$ 225.3**	$ 182.2
Reimbursable contracts	**61.7**	57.6
Policy reserves	**63.0**	44.5
Total liabilities for policyholder benefits	**350.0**	284.3
Unearned premium income:		
Premiums	**76.9**	81.2
Federal Employees Program	**88.1**	118.2
Deposits and advances	**6.0**	8.9
Accounts payable and accrued expenses	**197.0**	190.5
Total liabilities	**718.0**	683.1
policyholders' equity		
Policyholders' equity	**688.4**	559.3
Total liabilities and policyholders' equity	**$ 1,406.4**	$ 1,242.4

See accompanying notes to consolidated financial statements.

consolidated statements of operations & policyholders' equity

	For the Years Ended December 31,	
	1995	1994
	(In Millions)	
Revenue	**$2,544.0**	$2,268.9
Investment and related income	**73.9**	34.7
Total revenue	**2,617.9**	2,303.6
Claims and medical expense	**1,996.4**	1,678.5
Operating expense	**526.2**	497.6
Total expenses	**2,522.6**	2,176.1
Income before income taxes and cumulative effect of accounting change	**95.3**	127.5
Provision for income taxes	**24.8**	25.2
Income before cumulative effect of accounting change	**70.5**	102.3
Cumulative effect of a change in accounting for postemployment benefits	-	(6.6)
Net income	**70.5**	95.7
Policyholders' equity, beginning of year	**559.3**	491.2
Adjustment to beginning balance for change in accounting principle for investments	-	1.2
Net change in unrealized gains (losses) for debt and equity securities	**58.6**	(28.8)
Policyholders' equity, end of year	**$ 688.4**	$ 559.3

See accompanying notes to consolidated financial statements.

	For the Years Ended December 31, 1995	1994
	(In Millions)	
Decrease in cash and cash equivalents:		
Cash flows from operating activities:		
Premiums and other revenue received	**$ 2,503.9**	$ 2,285.8
Claims and medical expense paid	**(1,933.6)**	(1,640.4)
Cash paid to suppliers and employees	**(509.8)**	(497.5)
Interest and dividends received	**57.4**	41.4
Income taxes paid	**(20.1)**	(40.1)
Net cash provided by operating activities	**97.8**	149.2
Cash flows for investing activities:		
Proceeds from investments sold:		
Fixed maturities	**716.1**	727.8
Equity securities	**853.0**	1,869.2
Proceeds from investments matured:		
Fixed maturities	**894.4**	843.3
Cost of investments purchased:		
Fixed maturities	**(1,661.3)**	(1,718.0)
Equity securities	**(856.9)**	(1,900.6)
Purchase of property and equipment	**(49.8)**	(29.2)
Net cash used in investing activities	**(104.5)**	(207.5)
Net decrease in cash and cash equivalents	**(6.7)**	(58.3)
Cash and cash equivalents at beginning of year	**54.9**	113.2
Cash and cash equivalents at end of year	**$ 48.2**	$ 54.9

See accompanying notes to consolidated financial statements.

	For the Years Ended December 31, 1995	1994
	(In Millions)	
Reconciliation of net income to net cash provided by operating activities:		
Net income	**$ 70.5**	$ 95.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Cumulative effect of a change in accounting for postemployment benefits	-	6.6
Depreciation and amortization	**26.5**	21.7
Amortization of investment discounts and premiums, net	**(.6)**	(.1)
Net realized loss (gain) on sale of investments	**(13.4)**	9.3
Decrease (increase) in certain assets:		
Premiums and other receivables	**(34.2)**	1.5
Reimbursable contracts receivable	**(4.1)**	6.4
Deferred expenses and other assets	**(11.9)**	(21.9)
Increase (decrease) in certain liabilities:		
Claims outstanding	**43.1**	29.7
Reimbursable contracts	**4.1**	(6.4)
Policy reserves	**18.5**	17.7
Unearned premium income	**(4.3)**	13.1
Deposits and advances	**(2.9)**	(2.9)
Accounts payable and accrued expenses	**6.5**	(21.2)
Total adjustments	**27.3**	53.5
Net cash provided by operating activities	**$ 97.8**	$ 149.2

See accompanying notes to consolidated financial statements.

1 Summary of Organization and Significant Accounting Policies

Organization

Blue Cross and Blue Shield of Florida, Inc. (the Plan), a mutual insurance company, offers a wide range of health care products including traditional health insurance, preferred provider organization products, health maintenance organization products (through its wholly owned subsidiary, Health Options, Inc.) and special products such as dental and wellness programs marketed throughout Florida. Life insurance products are marketed in Florida by Florida Combined Life Insurance Company, Inc., a wholly owned subsidiary.

During the reporting periods, the Plan acted as an administrator for other Blue Cross and Blue Shield Plans and employer groups, and for programs such as Medicare and the State of Florida — Employee Group.

The Plan is an independent licensee of the Blue Cross and Blue Shield Association. The Association owns the Blue Cross and Blue Shield service marks and establishes national policies and sets certain operating and financial guidelines for the independent Blue Cross and Blue Shield Plans. The Association is not an affiliate or guarantor of the Plan.

Basis of Presentation and Principles of Consolidation

The consolidated financial statements include the accounts of the Plan, its wholly owned subsidiaries and a controlled affiliate (the Company). All significant intercompany transactions have been eliminated. Certain amounts in the 1994 financial statements have been reclassified to correspond to the 1995 presentation.

The accompanying financial statements have been prepared on the basis of generally accepted accounting principles. The preparation of financial statements in conformity with generally accepted accounting principles requires the Company to use estimates and assumptions based on analytical methods in determining deferred acquisition costs, deferred income taxes, incurred and unreported claims, valuation of pension and other benefit plans, and other various accruals. Actual results could differ from those estimates.

Investments

On January 1, 1994, the Company adopted Financial Accounting Standards (FAS) Board Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities," which requires that investments in debt and equity securities be designated as trading, held-to-maturity, or available-for-sale. These reporting categories determine the recognition and measurement of investments in the Company's financial statements. The cumulative effect as of January 1, 1994, of adopting FAS 115 was an increase to policyholders' equity of $1.2 million.

The Company's fixed maturities are comprised of U.S. Government, Treasury and Agency instruments; corporate and municipal bonds; commercial paper; and certificates of deposit. Fixed maturities are classified as available-for-sale and are carried at published market value. Equity securities are also carried at published market value. Changes in such value for the fixed maturities and equity securities are reflected as a direct credit or charge to policyholders' equity.

Cash and cash equivalents consist of demand deposits, money markets, overnight repurchase agreements and marketable securities with a maturity when purchased of less than ninety days. These investments are carried at cost, which approximates market value.

Net realized investment gains and losses are calculated on the first-in first-out basis of identification. Realized gains and losses and declines in value judged to be other than temporary on available-for-sale securities are included in investment and related income.

Revenue Recognition

Premiums are billed in advance of coverage periods and recognized as revenue pro-rata over the period of service or coverage. Other revenue is recognized in income when earned.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the assets.

Deferred Acquisition Costs

The costs of acquiring new business, principally direct marketing expenses, and certain expenses of policy issuance have been deferred. These expenses vary with, and are primarily related to, the production of certain Medicare supplemental products issued after October 1, 1990.

The deferred acquisition costs of $27.2 million and $25.8 million, net of amortization, for 1995 and 1994, respectively, are included in deferred expenses and other assets and are being amortized over the expected premium-paying period of the related policies.

At December 31, 1995 and 1994, $3.2 million and $4.3 million of advertising was included in deferred acquisition costs, respectively. Advertising expense for 1995 and 1994 was $13.2 million and $14.2 million, respectively.

Liabilities for Policyholder Benefits

The Company accrues for incurred and unreported claims based on historical paid and incurred claims data using actuarially accepted methods. The assumptions used in determining the liability are regularly reviewed and any adjustment resulting from these reviews is reflected in current operations. Processing costs related to such claims are expensed as incurred. See Note 6 for activity in the liability for claims outstanding.

The liabilities for reimbursement contracts (national accounts, cost plus and minimum premium plan contracts) are also established as receivables and have no effect on net income.

The Company also issues a number of products which are priced in such a way as to generate income in early years which provides for revenue recognition over the expected policy periods in order to match revenue and expense. Such products issued after October 1, 1990, may not be cancelled, and a liability for policyholder benefits has been recorded using accepted actuarial valuation techniques.

Expense Reimbursement

Operating expense is allocated to various lines of business in order to determine the expense reimbursement due from Medicare, where the Company acts as a fiscal intermediary, and from other Blue Cross and Blue Shield Plans for which the Plan processes claims. The Company is reimbursed for either costs incurred or amounts based on predetermined budgets. Reimbursements of $159 million for 1995 and $164 million for 1994 (which approximates the cost of administering these programs) are included in revenue. The actual cost of administration is included in operating expense. Reimbursements and claim payments are subject to audit by the respective agencies and any resulting adjustments are reflected in current operations.

Income Taxes

The Company files consolidated federal and state income tax returns and provides for income taxes in accordance with FAS 109. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

2 Investments

The market value and carrying value of the Company's fixed maturity and equity investments are estimated based on quoted market prices. The cost and market value of the Company's fixed maturity and equity investments are as follows:

1995

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
	(In Millions)			
Fixed maturity investments:				
U.S. Government & Agencies	$456.6	$12.2	—	$468.8
Mortgage-backed securities	60.3	1.5	.2	61.6
Public utilities	2.3	—	.2	2.1
Corporate	153.0	5.1	.2	157.9
Other	12.2	.4	—	12.6
Total fixed maturities	684.4	19.2	.6	703.0
Equity securities	174.6	39.0	3.0	210.6
	$859.0	$58.2	$3.6	$913.6

1994

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
	(In Millions)			
Fixed maturity investments:				
U.S. Government & Agencies	$426.3	$ .2	$12.0	$414.5
Mortgage-backed securities	85.5	—	5.3	80.2
Public utilities	1.3	—	.1	1.2
Corporate	118.5	—	5.9	112.6
Other	1.4	—	.1	1.3
Total fixed maturities	633.0	.2	23.4	609.8
Equity securities	157.4	10.2	5.2	162.4
	$790.4	$10.4	$28.6	$772.2

Policyholders' equity at December 31, 1995, includes $40.5 million of net unrealized gains on investments, after deferred income taxes of $14.1 million. Policyholders' equity at December 31, 1994, includes $18.2 million of net unrealized losses on investments.

The amortized cost and market value of fixed maturities by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	1995 Cost	1995 Market Value	1994 Cost	1994 Market Value
	(In Millions)		(In Millions)	
Due in one year or less	$108.0	$111.2	$112.4	$110.2
Due after one year through five years	310.0	317.9	278.7	268.7
Due after five years through ten years	137.9	142.2	118.9	114.5
Due after ten years	68.3	70.1	37.5	36.2
	624.2	641.4	547.5	529.6
Mortgage-backed securities	60.2	61.6	85.5	80.2
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Proceeds from sales of investments in fixed maturities during 1995 and 1994 were $716.1 million and $727.8 million, respectively. Gross gains of $10.6 million and $1.4 million and gross losses of $5.6 million and $13.4 million were realized on those sales in 1995 and 1994, respectively.

3 Receivables

	December 31, 1995	1994
	(In Millions)	
Premiums and other:		
Subscribers and members	$ 76.8	$ 47.9
Interplan and National accounts	10.9	19.1
Medicare and other government agencies	5.7	2.4
Providers	7.4	9.3
Interest receivable	10.9	8.4
Others	18.0	14.4
Total receivables	129.7	101.5
Less allowance for doubtful accounts	5.8	11.8
Net receivables	$123.9	$ 89.7

The Plan records its proportional share of receivables and unearned premiums related to the Federal Employees Health Benefits Program (FEP). The amounts recorded for 1995 and 1994 had no effect on net income.

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		(In Millions)		
Fixed maturity investments:				
U.S. Government & Agencies	**$456.6**	**$12.2**	—	**$468.8**
Mortgage-backed securities	**60.3**	**1.5**	**.2**	**61.6**
Public utilities	**2.3**	—	**.2**	**2.1**
Corporate	**153.0**	**5.1**	**.2**	**157.9**
Other	**12.2**	**.4**	—	**12.6**
Total fixed maturities	**684.4**	**19.2**	**.6**	**703.0**
Equity securities	**174.6**	**39.0**	**3.0**	**210.6**
	$859.0	**$58.2**	**$3.6**	**$913.6**

1994	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
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Fixed maturity investments:				
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Public utilities	1.3	—	.1	1.2
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The amortized cost and market value of fixed maturities by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	1995		1994	
	Cost	Market Value	Cost	Market Value
	(In Millions)		(In Millions)	
Due in one year or less	**$108.0**	**$111.2**	$112.4	$110.2
Due after one year through five years	**310.0**	**317.9**	278.7	268.7
Due after five years through ten years	**137.9**	**142.2**	118.9	114.5
Due after ten years	**68.3**	**70.1**	37.5	36.2
	624.2	**641.4**	547.5	529.6
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	$684.4	**$703.0**	$633.0	$609.8

Proceeds from sales of investments in fixed maturities during 1995 and 1994 were $716.1 million and $727.8 million, respectively. Gross gains of $10.6 million and $1.4 million and gross losses of $5.6 million and $13.4 million were realized on those sales in 1995 and 1994, respectively.

3 Receivables

	December 31, 1995	1994
	(In Millions)	
Premiums and other:		
Subscribers and members	**$ 76.8**	$ 47.9
Interplan and National accounts	**10.9**	19.1
Medicare and other government agencies	**5.7**	2.4
Providers	**7.4**	9.3
Interest receivable	**10.9**	8.4
Others	**18.0**	14.4
Total receivables	**129.7**	101.5
Less allowance for doubtful accounts	**5.8**	11.8
Net receivables	**$123.9**	$ 89.7

The Plan records its proportional share of receivables and unearned premiums related to the Federal Employees Health Benefits Program (FEP). The amounts recorded for 1995 and 1994 had no effect on net income.

4 Property and Equipment

	December 31, 1995	1994
	(In Millions)	
Land	**$ 17.3**	$ 5.1
Buildings and improvements	**60.0**	49.4
Equipment and other	**132.0**	112.4
Total property and equipment	**209.3**	166.9
Less accumulated depreciation	**98.7**	86.0
Net property and equipment	**$110.6**	$ 80.9

Depreciation expenses for 1995 and 1994 were $20.1 million and $15.7 million, respectively. Buildings and improvements, as of December 31, 1995, include $8.5 million for construction in process of the home office complex. Future costs of construction for this capital project are expected to approximate $49.0 million.

5 Administrative Contracts

The Plan serves as intermediary for the Medicare program. Additionally, the Plan acts as an administrator for other Blue Cross and Blue Shield Plans, employer groups and other organizations. Claims relating to these programs, as shown in the following table, are not reflected in the accompanying consolidated financial statements.

	Number of Claims Processed		Amount Paid	
	1995	1994	**1995**	1994
	(In Millions)		(In Millions)	
Medicare	**52.17**	53.71	**$8,107.5**	$8,143.9
State of Florida	**1.81**	1.74	**290.0**	278.2
BCBS Interplan Business	**0.14**	0.05	**129.4**	135.8
Other Groups	**1.18**	1.06	**194.5**	191.8

6 Liability for Claims Outstanding

Activity in the liability for claims outstanding is summarized as follows for the years ended December 31, 1995 and 1994:

	December 31, 1995	1994
	(In Millions)	
Balance at January 1	**$ 182.2**	$ 152.5
Incurred related to:		
Current year	**1,449.0**	1,178.1
Prior years	**(2.3)**	(6.3)
Total incurred	**1,446.7**	1,171.8
Paid related to:		
Current year	**1,226.8**	998.6
Prior years	**176.8**	143.5
Total paid	**1,403.6**	1,142.1
Balance at December 31	**$ 225.3**	$ 182.2

7 Employee Pension Plan

The Company participates in a defined benefit, non-contributory pension plan covering substantially all of its employees. The plan provides benefits based on years of service and the employee's compensation in the years immediately preceding retirement. The plan is funded through the Blue Cross and Blue Shield National Retirement Trust, a collective investment trust which services the retirement programs of its participating employers. Assets of the National Retirement Trust consist primarily of listed equity securities and U.S. Government and corporate bonds.

For financial reporting purposes, a pension plan is considered underfunded when the fair value of plan assets is less than the accumulated benefit obligation. The plan has assets in excess of the accumulated benefit obligation (actuarial present value of benefits earned to date based on present salary levels) at December 31, 1995 and 1994. The Company's funding policy is to meet the minimum requirements of applicable regulations within the limits of deductibility under current tax regulations. In conformity with that policy, the Company made additional contributions in 1995 and 1994 which reduced the accrued pension liability.

The following tables detail the components of pension expense, the funded status of the plan, amounts recognized in the Company's consolidated financial statements, and major assumptions used to determine these amounts:

	December 31, 1995	1994
	(In Millions)	
Components of pension expense:		
Service cost	**$ 8.7**	$ 8.8
Interest cost	**10.0**	9.0
Actual return on plan assets	**(26.3)**	.9
Amortization of unrecognized amounts	**15.8**	(9.9)
Net pension cost for year	**$ 8.2**	$ 8.8
Funded status of the pension plan:		
Plan assets at fair value at year-end	**$133.1**	$100.7
Actuarial present value of benefit obligations:		
Vested	**92.1**	69.9
Nonvested	**12.1**	9.6
Accumulated benefit obligation	**104.2**	79.5
Provision for future salary increases	**59.8**	44.6
Projected benefit obligation at year-end	**164.0**	124.1
Projected benefit obligation in excess of plan assets	**(30.9)**	(23.4)
Unrecognized prior service cost	**.3**	.4
Unrecognized net loss	**21.1**	14.5
Unrecognized net assets	**(4.4)**	(4.9)
Accrued pension liability at year-end	**$ (13.9)**	$ (13.4)
Major assumptions:		
Discount rate	**7.25%**	8.0%
Rate of increase in compensation levels	**3.5%-7.0%**	3.5%-7.0%
Expected long-term rate of return on plan assets	**9.0%**	9.0%

8 Postretirement Benefits Other than Pensions and Postemployment Benefits

The Company provides certain health care and life insurance benefits to eligible retired employees. Generally, the health care coverages pay a percentage of most medical expenses reduced for any deductibles and payments made by government programs and other group coverages. Those covered by the HMO plan have authorized care fully covered except for required copayments. Life payments are generally provided by insurance contracts. The Company's current policy is to fund the cost of postretirement health care and life insurance plans on a pay-as-you-go basis.

The components of net periodic postretirement benefit cost are as follows:

	December 31, 1995	1994
	(In Millions)	
Service cost	**$ 2.5**	$ 2.5
Interest cost	**3.4**	3.1
Amortization of plan amendments	**(1.3)**	(1.3)
Net periodic postretirement benefit cost	**$ 4.6**	$ 4.3

The amounts recognized in the Company's balance sheets were as follows:

	December 31, 1995	1994
	(In Millions)	
Accumulated postretirement benefit obligation:		
Retirees and dependents	**$ 15.2**	$ 13.4
Actives eligible for benefits	**4.7**	4.1
Actives not yet eligible	**33.5**	25.8
Total obligation	**53.4**	43.3
Unamortized prior plan amendments	**24.2**	25.5
Unrecognized loss	**(9.5)**	(3.7)
Net postretirement benefit liability recognized in the balance sheets	**$ 68.1**	$ 65.1

The accumulated postretirement benefit obligation (APBO) was determined using discount rates of 7.25% in 1995 and 8.0% in 1994 and an assumed compensation increase ranging from 4.0% to 7.5% for both years. The health care cost trend rates for 1995 were assumed to be 11.0% declining to 6.0% in 10 years. Cost trend rates for 1994 were assumed to be 11.5% declining to 6.0% in 12 years. The effect of a 1.0% increase in the assumed health care cost trend rate would increase the APBO approximately 0.5% and 0.7% as of December 31, 1995 and 1994, respectively. The aggregate of the service and interest costs components of net annual postretirement benefit cost would increase by approximately 0.4% in 1995 and 0.5% in 1994.

The Company provides certain postemployment benefits, such as disability coverages and severance pay, to former or inactive employees during the time period following employment but before retirement. Effective January 1, 1994, the Company adopted FAS 112, "Employers' Accounting for Postemployment Benefits." Postemployment benefits are accrued as of the date the employee becomes eligible for the benefit. Prior to the accounting change, costs were charged to expenses as incurred. The Company's charge for postemployment benefits at January 1, 1994, was $6.6 million, net of $1.7 million of deferred tax benefits, and was immediately recognized as the cumulative effect of a change in accounting for postemployment benefits. The 1995 and 1994 annual expense was $1.9 million and $1.1 million, respectively.

9 Rentals Under Operating Leases

The Company leases office space and data processing and office equipment under leases which expire on various dates through 2000 and thereafter. The following is a schedule of future approximate minimum rental payments due under operating leases that have initial or remaining non-cancelable lease terms in excess of one year:

Year Ending December 31,	Basic Rental Commitments
	(In Millions)
1996	$18.5
1997	16.4
1998	9.5
1999	3.7
2000	2.7
Thereafter	2.5
	$53.3

Rental expense for 1995 and 1994 was $29.1 million and $27.8 million, respectively.

10 Income Taxes

The Company provides for income taxes in accordance with FAS 109, "Accounting for Income Taxes." Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

The components of the net deferred tax asset are as follows:

	December 31, 1995	1994
	(In Millions)	
Deferred tax assets:		
Building and fixed assets	**$ 14.5**	$ 14.4
Software	**11.8**	16.7
Other liabilities and reserves	**18.1**	18.2
Accrued pension costs	**5.1**	6.3
Accrued postretirement benefits other than pensions	**27.5**	26.2
Accrued postemployment benefits	**4.0**	3.6
Other accrued expenses	**10.5**	10.9
Miscellaneous	**2.3**	2.0
Alternative minimum tax credits	**16.7**	29.3
Valuation allowance	**(43.6)**	(62.3)
Total deferred tax assets	**66.9**	65.3
Deferred tax liabilities:		
Policy acquisition costs	**.6**	2.8
Claims processing cost	**4.8**	5.0
Reserves	**14.3**	15.8
Basis differences in subsidiaries	**3.0**	3.0
Miscellaneous	**5.2**	3.9
Unrealized gain on investment securities	**14.1**	—
Total deferred tax liabilities	**42.0**	30.5
Total net deferred tax asset	**$ 24.9**	$ 34.8

A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. During 1995, the valuation allowance decreased by $18.7 million, primarily due to the utilization of minimum tax credits.

Under the principles of FAS 109, the provision (benefit) for income taxes includes income taxes currently payable and those deferred because of temporary differences between the financial statement and tax bases of assets and liabilities. The provision for income taxes for 1995 and 1994 consists of the following:

	December 31, 1995	1994
	(In Millions)	
Current:		
Federal	**$19.6**	$22.1
State	**5.1**	5.1
	24.7	27.2
Deferred:		
Federal	**.1**	(1.6)
State	**—**	(.4)
	.1	(2.0)
Total provision for income taxes	**$24.8**	$25.2

Reconciliation of the differences between income taxes computed at statutory federal rates and the consolidated provision for income taxes for 1995 and 1994 is as follows:

	December 31, 1995 Amount	1995 Rate	1994 Amount	1994 Rate
Income taxes computed at statutory federal tax rates	**$ 33.4**	**35.0%**	$ 44.6	35.0%
Tax exempt income	**.1**	**.1%**	(1.9)	(1.4%)
Dividend received deduction	**(.3)**	**(.3%)**	—	—
Alternative minimum tax	**—**	**—**	(13.2)	(10.4%)
State tax provision, net of federal benefits	**4.1**	**4.3%**	1.8	1.5%
Other miscellaneous differences	**6.2**	**6.5%**	(.2)	(.1%)
Change in valuation allowance on deferred taxes	**(18.7)**	**(19.6%)**	(5.9)	(4.6%)
Provision for income taxes/ consolidated effective tax rate	**$ 24.8**	**26.0%**	$ 25.2	20.0%

As of December 31, 1995 and 1994, the net deferred tax asset includes federal alternative minimum tax (AMT) credit carryforwards of $16.7 million and $29.3 million, respectively. These credits may be utilized to offset future tax liabilities to the extent that the Company's regular tax liability exceeds the alternative minimum tax liability. The AMT credits result from the payment of federal alternative minimum tax from 1990 through 1993 and may be carried forward indefinitely.

11 Statutory Reporting

The consolidated financial statements of the Company included herein have been prepared in conformity with generally accepted accounting principles (GAAP). The Plan and its subsidiaries separately report to the Insurance Department of the State of Florida on the basis of statutory accounting practices.

A reconciliation between consolidated GAAP policyholders' equity and statutory surplus of the Plan follows:

	December 31, 1995	1994
	(In Millions)	
Consolidated policyholders' equity (GAAP)	**$ 688.4**	$ 559.3
Less certain asset exclusions:		
Net investments in subsidiaries	**(36.2)**	(32.7)
Accounts receivable, net	**(13.0)**	(9.2)
Furniture, equipment and other	**(52.5)**	(41.7)
Deferred expenses and other	**(54.8)**	(69.3)
	(156.5)	(152.9)
Additional statutory claims reserves	**(31.4)**	(30.0)
Additional statutory active life reserves	**(65.7)**	(69.8)
Statutory investment reserves	**(81.4)**	(69.4)
GAAP accounting rules:		
Postretirement benefits (FAS 106)	**60.3**	60.7
Postemployment benefits (FAS 112)	**9.9**	7.7
Investments (FAS 115)	**(14.7)**	19.6
Pension accrual (FAS 87)	**20.9**	18.3
Other, net	**(7.1)**	(8.0)
Statutory surplus of the Plan	**$ 422.7**	$ 335.5

Results of operations reconciled to a statutory basis are as follows:

	December 31, 1995	1994
	(In Millions)	
Consolidated net income on a GAAP basis	**$ 70.5**	$ 95.7
Less subsidiaries' net income	**(40.0)**	(58.1)
Plan net income	**30.5**	37.6
Additional statutory reserves	**1.7**	(2.6)
GAAP pension expense	**2.6**	2.9
GAAP additional reserves and deferred taxes	**(.5)**	(17.9)
GAAP accounting rules:		
Postretirement benefits (FAS 106)	**(.4)**	.3
Postemployment benefits (FAS 112)	**2.2**	7.7
Other	**(3.2)**	.4
Statutory net income of the Plan	**$ 32.9**	$ 28.4

12 Contingencies

In the normal course of its business operations, the Company is involved in routine litigation from time to time with insureds, beneficiaries, and others, and a number of such lawsuits were pending at December 31, 1995.

In the opinion of management, there will be no material adverse effect on the Company's financial position or results of operations resulting from the aforementioned litigation and claims.

The Company issues a number of products which are priced in such a way as to generate income in early years which provides for revenue recognition over the expected policy periods in order to match revenue and expense. Prior to October 1, 1990, the Company had no contractual obligation to continue these products or to maintain the current pricing levels. Accordingly, no liability for policyholder benefits has been recorded in the accompanying balance sheets for the products issued prior to October 1, 1990.

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in 1995,
Blue Cross &
Blue Shield of
Florida recycled
1,099 tons of
paper and saved
18,683 trees,
4,505,900
kilowatts of
electricity and
7,693,000 gallons
of water.

1995

For further information contact:
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Jacksonville, Florida 32231-4269

Blue Cross
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